



GLOBAL ECONOMY STILL ON A ROLL AMIDST CONCERNS OVER PROTECTIONISM

The latest International Chamber of Commerce (ICC) and Ifo World Economic Survey, released in late May, found that world economic expansion is poised to continue throughout 2007 but that economists were increasingly concerned about the rising tide of protectionism. The following article is an edited extract of that survey.

Economists expect even stronger economic growth in the second half of the year than during the current period. But they noted there are significant regional and country-by-country variations in economic outlooks, with a slowing US economy the dark cloud on the horizon.

The Ifo World Economic Climate Index was unchanged this quarter at 106.5, well above the long-term average. The report surveyed 1,024 economic experts in 91 countries.

REGIONAL ECONOMIC GROWTH

The Ifo World Economic Climate Index displayed varying results in the three major economic regions of Western Europe, North America and Asia.

In Western Europe the Ifo climate indicator rose again, reaching a six-year high. The current economic situation has been assessed especially favourable in the Scandinavian countries as well as in Germany and the Netherlands.

In the United Kingdom, Ireland and Spain, the surveyed experts foresee a cooling of the economy over the coming six months.

In North America, the climate indicator has fallen clearly and is now for the first time in four years below its long-term average. In the US both the assessments of the current economic situation as well as the six-month expectations have been revised downwards.

Also in Asia, the climate indicator has fallen but is still clearly above its long-term average. Especially in Japan, India and Hong Kong, the economic expectations are less optimistic than they were at the beginning of the year. In China however, the economic outlook remains positive

as increased consumer spending and more exports offset slower capital investment. On the whole, the WES experts foresee a stable economic development in Asia.

INFLATION

Experts foresee a slight increase in global inflation at 3.8% for 2007, 0.2 point more than the previous estimate.

Inflation expectations for 2007 have risen slightly in the US (2.9% vis-à-vis 2.5% in January 2007) and are stable in Western Europe (at 2.1%). In Asia they have weakened somewhat (at 2.5% compared to 2.8% in January). More WES experts than in the previous survey anticipate a rise in key interest rates, but long-term rates are expected to remain unchanged.

CURRENCIES

In the current poll, economists were asked an extra question on the outlook for the US dollar for the coming six months.

Overall, they expect the US dollar to continue to weaken. The Japanese yen was viewed in the current survey as undervalued while the Euro and the British pound were seen as slightly overvalued.

DEEP CONCERN OVER INVESTMENT PROTECTIONISM

The survey also asked a special question about the rising tide of investment protectionism, as many governments block cross-border investment for reasons of national security or protecting strategic sectors.

In all regions, a majority of economists said they were very concerned about an upswing in international

**Figure 1
World Economy**

Quarter/Year	II/05	III/05	IV/05	I/06	II/06	III/06	IV/06	I/07	II/07
Climate	97.5	97.5	99.3	109.2	111.0	105.6	104.7	106.5	106.5
Situation	96.8	93.2	98.6	109.6	113.2	115.1	120.5	122.4	120.5
Expectations	98.2	101.8	100.0	108.8	108.8	96.5	89.5	91.2	93.0

Index, 1995=100.

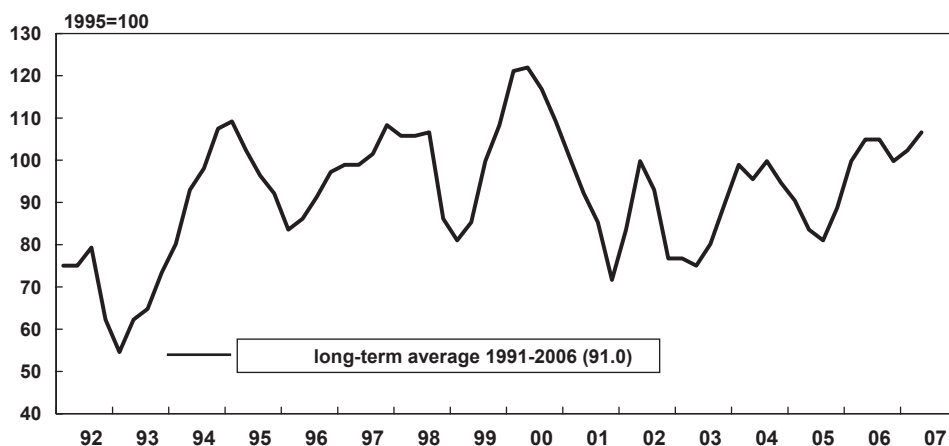
Source: Ifo World Economic Survey (WES) II/2007.

**Figure 2
Economic Climate**

Climate	II/05	III/05	IV/05	I/06	II/06	III/06	IV/06	I/07	II/07
North America	104.2	111.3	99.8	110.4	114.8	98.0	96.2	101.5	92.7
Western Europe	83.6	81.0	88.7	99.8	104.9	104.9	99.8	102.3	106.6
Asia	104.6	104.6	109.3	115.7	114.8	102.8	109.3	113.0	104.6

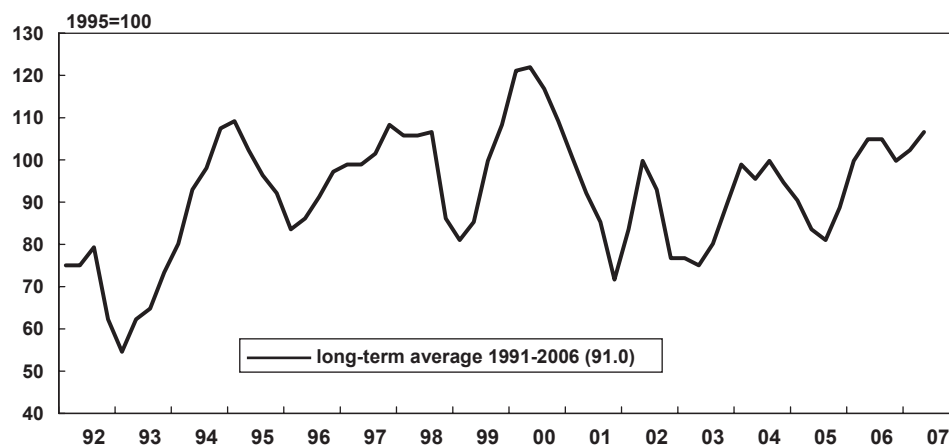
Index, 1995=100.

Source: Ifo World Economic Survey (WES) II/2007.

**Figure 3
North America - Economic Climate***


* Arithmetic mean of judgement about present and expected economic situation.

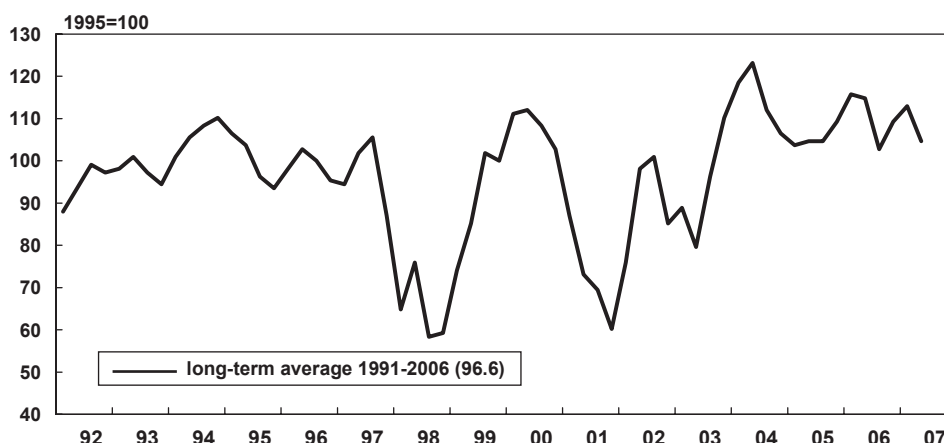
Source: Ifo World Economic Survey (WES) II/2007.

**Figure 4
Western Europe - Economic Climate***


* Arithmetic mean of judgement about present and expected economic situation.

Source: Ifo World Economic Survey (WES) II/2007.

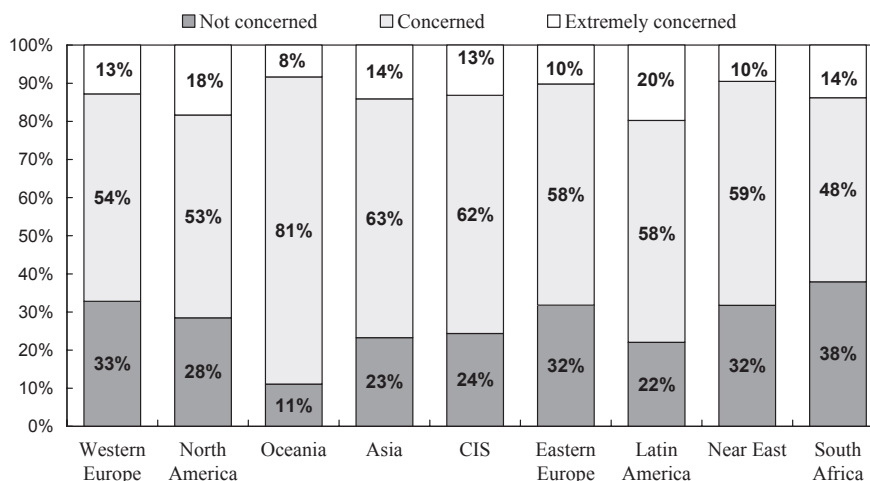
Figure 5
Asia - Economic Climate*



* Arithmetic mean of judgement about present and expected economic situation.
Source: Ifo World Economic Survey (WES) II/2007.

Figure 6
Investment Protectionism and Openness of Markets

How concerned are you about the new tide of investment protectionism under the pretext of protecting “strategic sectors”?



Source: Ifo World Economic Survey (WES) II/2007.

investment protectionism. Most said protectionism leads to erosion of national and global investment outlooks, increased costs and a decline in competitiveness.

ICC strongly believes that cross-border investment is essential to sustaining prosperity in developed and developing countries. While governments of all sovereign nations reserve the right to regulate, it is critical that they

do so in a manner that does not discriminate against or impede foreign investment out of protectionist motivation. Some governments have clearly gone too far in recent years, including governments that will be represented at the G8 next month. ICC urges governments in developed and developing countries to avoid investment protectionism and to welcome market-driven foreign investment.

The quarterly Ifo World Economic Survey is conducted in cooperation with the International Chamber of Commerce and receives financial support from the European Commission. The full survey is available on the internet at www.cesifo-group.de.